

Sri Lanka Energies HR (Private) Limited - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Energies HR (Private) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of profit and loss and comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the particular Standard	reference to	Management Comment	Recommendation
a) According to the Financial Statements of the Company, credit balances in trade receivables aggregating to Rs.323,493 and debit balances in trade and other payables aggregating Rs.139,998 had been set off against trade receivables and other payables respectively contrary to the paragraph 32 of LKAS 01- presentation of financial statements.		There are some balances which are remained unchanged may happened due to record keeping error and will proceed to write off with concurrence of Audit Committee.	Should be complied with the provisions of the Accounting Standards.
b) As per the paragraph 46 of LKAS 07 - Statement of cash flows, an entity shall disclose the policy which it adopts in determining the composition of cash and cash equivalents. However, the Company had not disclosed the adopting policy in determining cash and cash equivalents in the Financial Statements of 2023.		Cash and cash equaling are consisted with the remaining balances of petty cash, Current A/c balances and Savings A/c balances only. This has happened mistakenly and actions will be taken to correct this.	- Do -

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) As per the financial statements, the professional fees (consultancy fees) paid for 03 consultants during the year 2023 was Rs.2.96 million and it also included Rs.2.8 million paid to two Consultants who were employed under Sri Lanka Energies (Pvt) Ltd, the parent Company. Accordingly, Profit for the year under review had been understated said amount.	Will be corrected as proposed.	Action should be taken to recognize relevant expenses relating to the Company.
b) As per the financial statements of the Company, the balance of retirement benefit obligation as at 31 December 2023 was Rs.6,730,740. However, this balance had included a gratuity provision of Rs.486,135 for six employees who retired in 2023 and a provision of Rs.243,068 for three employees currently employed by the Company had not been included.	This will be checked and corrected with 2024 accounts after proper reconciliation.	The Company should be reconciled the gratuity provision.
c) As per the Section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022, taxable income shall be taxed at the rate of 30 per cent with effect from 01 April 2023. However, Income Tax Computation had been made by applying the rate of 24 per cent for the year of assessment (Y/A) 2023/2024.	Management comment had not been provided	- Do -

Further, the fully depreciated assets amounting to Rs.1,682,912 had been considered in calculating capital allowances on fixed assets for the same year of assessment. Therefore, the assessable income had been understated by Rs.336,582. As a result of the said two matters, it is observed that the income tax provision had been understated by Rs.228,755 in the year under review.

1.5.3 Unreconciled Control Accounts or Records

Item Rs.	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference	Management Comment	Recommendation
Income Tax	17,472,609	62,886,738	45,414,129	Management comment had not been provided	Relevant disclosures should be made in the financial statements.
VAT	(88,056)	29,723,484	29,635,428		
NBT	10,744,888	10,178,876	566,012		

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
a) According to the financial statements, the balance of Sales tax payable to CEB (excess VAT collected from the CEB) as at 31 December 2023 was Rs. 11.79 million. Further, it was observed that this payable balance had not been settled by the Company for more than five years.	Adequate information provided for the audit references in every year and this time also, Please refer to the supporting that we have that we have provided already. Further the actions will be taken to settle this value to CEB with 2024 accounts based on the guidance by the ACM Ministry of Power and Energy.	Action should be taken to settle the due balance.
b) According to the financial statements, the NBT Payable as at 31 December 2023 was Rs.10.74 million. However, the Company had not paid the said tax to the Department of Inland Revenue upon the collection of NBT from the Ceylon Electricity Board (CEB) in the year under review.	As explained in Ministry Audit Committee Meeting at where Audit Superintendent was present, NBT payables will take arrangements to settle the dues by considering the cash flow of the company.	- Do -

1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
a) As per the section 126 of Inland Revenue Act No. 24 of 2017, the duly completed return along with the schedule and any other required documents should be submitted to the Inland Revenue Department on or before the 30 November subsequent to the end of the year of assessment. However, the Company had not	The year 2023 the company has cleared the backlog of income tax return filing ,company has unable complete the filing of 2017 and 2022 will take immediate actions to file	Should be complied with the provisions in the Inland Revenue Act.

filed returns for the years of assessment 2017/2018 and 2022/2023 complying with the said provisions of the Act.

the income tax Returns to the IRD. Subsequently, considering the company's cash position, the company has started settlement of due income taxes from the month of January 2024.

- b) As per Section 90 (1) (a) of Inland Revenue Act No. 24 of 2017, A person who is an “installment payer” shall pay tax by quarterly installments. However, the Company had not paid income tax from the inception of the Company and the income tax payable as at 31 December 2023 was Rs.17.47 million. Management comment had not been provided - Do -

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.2,461,971 and the corresponding profit in the preceding year amounted to Rs.2,654,472. Therefore deterioration amounting to Rs.192,501 of the financial result was observed. The reason for the deterioration is the increase of administrative expenses.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2023 Rs.	2022 Rs.	Increase/Decrease Rs.	Percentage (%)
Revenue	103,432,648	100,472,223	2,960,425	2.9
Cost of sale	93,046,563	90,262,877	2,783,686	3.1
Administrative Cost	7,955,726	7,737,426	218,300	2.8

2.3 Ratio Analysis

Ratio	2023	2022
Return on capital employed (%)	1.72	1.90
Gross profit ratio (%)	10.04	10.16
Net profit ratio (%)	2.38	2.64
Current Ratio (times)	3.87	3.34